applied pay-as-you-go accounting for OPEBs and did not accrue OPEB expenses as will be done under SFAS 106.

5. Sharing And Low-End Formula Adjustment Mechanisms:

The price cap plan also provides for a lower formula adjustment if a LEC's earnings fall below 10.25% in a base year period. This Lower Formula Adjustment serves to ensure that the price cap plan does not impair a LEC's ability to provide quality service to its customers.

Under price cap regulation, the NTCs have not made any sharing or low end adjustments that reflect the impact of SFAS 106. As noted, we have applied pay-as-you-go accounting for OPEBs. Therefore, the lower formula adjustment that the NTCs filed in their April 2, 1992 Annual Access Tariff Filing did not include the effect of SFAS 106 accounting changes.

Even if the NTCs had made SFAS 106 accounting changes in 1991, and even if these changes had increased the level of the lower formula adjustment in the 1992 tariff filing, it would have been irrelevant to the issue in this proceeding of whether SFAS 106 should be treated as exogenous. Neither the LEC Price Cap Order nor the Commission's prior treatment of exogenous cost changes lend any support to the notion that the need for an exogenous cost adjustment depends on the effect of the exogenous event on lower formula or sharing adjustments.

The lower formula adjustment and the sharing zones are designed to provide a backstop on low earnings to prevent unreasonably low rates, and to provide a cap on high earnings

to prevent unreasonably high rates.[30] Exogenous cost changes, on the other hand, are adjustments to the price cap indices for changes that would not be incorporated in the productivity or inflation factors. Therefore, such cost changes are necessary to provide the proper incentive for LECs to meet or beat the productivity standards.

Regardless of whether a LEC's earnings are in the sharing, no sharing, or lower formula zones, the LEC is entitled, and in some cases, required, to make an exogenous cost adjustment for "costs that are triggered by administrative, legislative, or judicial action beyond the control of the carriers."[31] For example, a LEC is required to reduce its PCI for amortization of the depreciation reserve deficiency regardless of whether the rate decrease would push the carrier's earnings below the lower formula mark. Conversely, an exogenous cost increase is justified even if it would increase a LEC's earnings and put it in the sharing zone.

In this case, exogenous treatment would be entirely consistent with the FCC's incentive-based policies underlying price cap regulation. After the NTCs implement SFAS 106 accounting, they will have every incentive to continue to be efficient and productive in managing the underlying OPEB expenses subject to the new accounting. Therefore, exogenous treatment would maintain the balance of risks and rewards that

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30 See LEC Price Cap Order, paras. 144-150.

31 LEC Price Cap Order, para. 166.

the Commission adopted in setting upper and lower limits on earnings.

F. OIS Para. 13

1. OIS Para. 13.1: "describe... each of the type of benefits being provided that is covered by the SFAS-106 accounting rules...."

NYNEX Corporation maintains the following OPEB plans for management and non-management employees:

- Retiree Health Plans: medical and dental
- Retiree Life Insurance Plans
- Retiree Discounts: concession service.

These benefits are detailed in Attachment E. Although the NTCs describe all OPEBs in Attachment E, the cost estimates included in this filing (i.e., Attachment B) are for the Retiree Health Plans only. The NTCs are currently in the process of quantifying the SFAS 106 impacts for the other two plans. Those impacts, however, are expected to be relatively small.

2. OIS Para. 13.2: "describe ... for 1991 and 1992, the pay-as-you-go level of expense associated with these benefits."

For 1991, NET recorded $50.8 million and NYT $101.1 million on a pay-as-you-go basis for OPEB expenses. For 1992, the budgeted amounts for those expenses are $58.1 million for NET and $120.3 million for NYT. Details are supplied in Attachment F.

3. OIS Para. 13.3: "describe ... any Voluntary Employee Benefit Association

(VEBA) trusts or other funding mechanisms for these expenses which were established prior to the adoption of SFAS-106."

The Omnibus Budget Reconciliation Act of 1990 ("OBRA 1990") added Section 420 to the Internal Revenue Code to permit transfers of excess assets from pension plans to a 401(h) account within the pension plan to fund retiree health care benefits. Transfers are permitted for the 1990 through 1995 tax years. In September 1991 and December 1991, under the provisions of OBRA 1990, a portion of excess pension assets totalling $107 million and $118 million were transferred from the two NYNEX pension plans (management and nonmanagement) to health care benefit accounts within the respective pension plans for reimbursement of retiree health care benefits paid by the NTCs during the 1990 and 1991 tax years. The total amounts transferred for NYNEX were $133 million for 1990 payments and $148 million for 1991.[32] NYNEX then established and made contributions to two separate Voluntary Employees' Beneficiary Association Trusts ("VEBA Trusts"), one for management and the other for nonmanagement, in amounts equal to the excess pension assets transferred. The VEBA Trusts were established to begin prefunding postretirement health care benefits.

In addition to the VEBA trusts, postretirement group life insurance benefits have been advance-funded since 1980 on an actuarial basis. These funds are currently held by insurance carriers and are essentially fully funded. The

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32 See also Attachment D.

introduction of SFAS 106 will have a de minimis effect on expense accruals for retiree group life insurance. Pending completion of an actuarial valuation of the funding status of the plans, we have not included the effects of the introduction of SFAS 106 on post-retiree group life insurance in this study.

> 4. OIS Para. 13.4: "describe ... the forms of postretirement benefit accrual accounting, if any, that were adopted within the regulated financial reporting before the adoption of price cap regulation."

To date, the NTCs have not adopted accrual accounting in accordance with the provisions of SFAS 106 for any nonpension postretirement benefits.[33]

> 5. OIS paras. 13.5 - 13.6: "describe ... (5) what type and level of SFAS-106-type expense is reflected in current rates; and (6) what type and level of SFAS-106-type expense was reflected in the starting rates for price caps."

As the NTCs have not applied SFAS 106-type accrual accounting for OPEBs, neither their current rates nor the starting rates for price caps have reflected any SFAS 106-type expense. The July 1, 1990 starting rates for price caps reflected pay-as-you-go OPEB expenses. For further details, see Attachment G; see also our response herein to OIS para. 13.2.

> G. OIS Para. 14: "We also seek descriptions and justifications of the actuarial assumptions, and the assumptions unique to postretirement health care benefits, made

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33 See Section F(3) supra.

> in computing the SFAS-106 expenses. These assumptions should include, but are not limited to, the time value of money, participation rates, retirement age, per capita claims cost by age, health care cost trend rates, Medicare reimbursement rates, salary progression (if a company has a pay-related plan), and the probability of payment (turnover, dependency status, mortality, etc.). Parties and commenters should also discuss what assumptions, if any, were made about other future events such as capping or elimination of benefits, or the possible advent of national health insurance."

The NYNEX Telephone Companies use SFAS 106 assumptions that are consistent with generally accepted accounting and actuarial principles, which are periodically reviewed for changing economic and market conditions. All assumptions used in the SFAS 106 calculation must meet the standards for approval by external auditors and the enrolled Actuary. Attachment H provides the actuarial assumptions and employer net incurred claims cost used for our SFAS 106 cost projections developed by the NYNEX Telephone Companies in conjunction with the enrolled Actuary, Hewitt Associates.

Hewitt Associates made no explicit assumption about the advent of national health insurance. However, the use of medical trend and inflation rates that decelerate sharply through the 1990s and then gradually from 2000 through 2010 implicitly assumes that dramatic improvements in controlling health care costs will be achieved in the United States. The basis for the trend used is our belief that sustained medical inflation at rates significantly above overall price growth will not be tolerated in the long run. If necessary, the government will enact price control and/or national health

insurance programs to stabilize the growth in health care costs. The severe negative impact on America's competitive position and standard of living resulting from continued growth in health care spending will force the government to do whatever is necessary to bring these spiralling costs under control.

H. OIS Para. 15: "Further, since part of the growth in the GNP-PI presumably occurs due to growth in medical costs, we seek information on what adjustment, if any, should be made in the exogenous adjustment to avoid any double counting. If an adjustment has been made, parties and commenters should document how the adjustment was computed. Moreover, parties and commenters should describe and quantify any wage changes which will be reflected in the GNP-PI that are expected to occur as a result of the introduction of SFAS-106. In particular, parties and commenters should discuss what adjustment, if any, should be reflected in the exogenous adjustment of this change."

As shown in item C on page 2 of the Godwins study (Attachment A herein), only 0.7% of the average Price Cap LEC's cost increase due to SFAS 106 will be reflected in the growth in the GNP-PI. The factors which cause far less than 100% of SFAS 106 costs to be reflected are described on pages 7 - 11 of the study, while the detailed derivation of the 0.7% is described in Section III, pages 12 - 31 of the study. This 0.7% adjustment avoids any double-counting with respect to medical cost inflation.

Turning to the second part of OIS para. 15, the Godwins study indicates that (pp. 23-24), because SFAS 106

increases the labor costs of employers who offer postretirement health benefits, these employers will demand a smaller amount of labor at any given level of the wage rate. This reduction in the demand for labor will reduce the wage rate (not including postretirement health benefits) facing all employers. The reduction in the wage rate will reduce labor costs of employers who do not offer postretirement health benefits. The labor costs of employers who do pay postretirement health care costs will increase by less than the direct impact of SFAS 106 on labor costs. That is, labor costs will increase due to SFAS 106 costs, but will be partially offset by the wage rate reduction.

The Godwins Macroeconomic Model computes the national wage rate reduction. It indicates that (pp. 25-26, 32), in response to the impact of SFAS 106, the wage rate in the national economy could eventually fall in relative terms by 0.926 percent (relative to what it would have been in the absence of SFAS 106). Godwins further states that this wage rate reduction reflects the ultimate effect of SFAS 106 and would not necessarily fully occur in 1993 when SFAS 106 becomes effective. If TELCO (the composite company constructed utilizing data from the price cap LECs) were able to achieve the full 0.926 percent wage rate reduction, it would cover 14.5 percent of the additional SFAS 106 costs.

The effect of the impact of SFAS 106 including the national wage rate reduction leaves 84.8 percent of TELCO incremental SFAS 106 costs not recovered in the GNP-PI. Thus, 84.8 percent of the incremental SFAS 106 costs are sought to be

recovered through an exogenous adjustment in the price cap formula.

I. OIS Para. 16: "Finally, parties and commenters relying on the macroeconomic model used in the USTA study should fully describe and document the model, including the method of estimation, parameter estimates, and summary statistics. This same data should be submitted for any alternate functional forms which were modeled, including the data used to estimate the model, the data used in making forecasts from the model, and the results of any sensitivity analyses performed to determine the effect of using different assumptions."

Godwins has developed a detailed point-by-point response to OIS para. 16. Included in Attachment I, it thoroughly documents and justifies the macroeconomic model employed in the Godwins study.

V. CONCLUSION

The Commission should issue an order approving recovery in price cap rates of the exogenous cost changes occasioned by the implementation of SFAS 106 accrual accounting for nonpension postretirement benefits expenses.

Respectfully submitted,

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and

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Dated: June 1, 1992

ATTACHMENT A

UNITED STATES TELEPHONE ASSOCIATION

Analysis of Impact of FAS 106 Costs on GNP-PI

Godwins

February, 1992

UNITED STATES TELEPHONE ASSOCIATION

Analysis of Impact of SFAS 106 Costs on GNP-PI

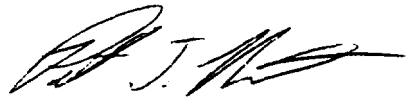
February 18, 1992

Godwins

Godwins has been engaged by the United States Telephone Association to perform an analysis of the impact of SFAS 106 on the GNP-PI. In particular, Godwins was asked to determine the extent to which the price cap mechanism utilized by the FCC will reflect the impact of SFAS 106 and will enable Local Exchange Carriers to recover their increase in total operating costs incurred due to their adoption of the new accounting standard.

This report describes the results of that analysis and provides detailed documentation of the data, methods, and assumptions utilized in the study.

Respectfully submitted,



Peter J. Neuwirth, F.S.A., M.A.A.A.

Andrew B. Abel, Ph.D.

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I. EXECUTIVE SUMMARY

The purpose of this study is to determine what percentage of the additional costs incurred by Local Exchange Carriers subject to Federal Price Cap regulations (hereinafter referred to as "Price Cap LECs") as a result of the Financial Accounting Standards Board's Statement No. 106 (SFAS 106) will be reflected in the GNP Price Index (GNP-PI) and what percentage will not be so reflected.

This study finds that ultimately the increase in GNP-PI caused by SFAS 106 (.0124%) will provide for recovery of 0.7% of the additional costs incurred by Price Cap LECs. Other macroeconomic factors, principally an eventual adjustment of the national wage rate, account for recovery of an additional 14.5% of the additional costs incurred by Price Cap LECs, leaving 84.8% of these additional costs unrecovered.

This study is presented in two stages: an Actuarial Analysis followed by a Macroeconomic Analysis. The Actuarial Analysis uses demographic, economic and benefit program data collected from each Price Cap LEC to construct a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole. This analysis finds that the impact of SFAS 106 on the costs of the average employer in the economy is only 28.3% of the corresponding impact on TELCO. The Macroeconomic Analysis which analyzes the impact of SFAS 106 on the economy as a whole finds that only 2.3% of the average employer's additional costs resulting from SFAS 106 is passed through to the GNP-PI.

The table on the following page summarizes how the key results of the study are combined to derive the unrecovered proportion of the Price Cap LECs' SFAS 106 costs.

Effects of SFAS 106 on TELCO's Costs

(A)	Impact on national average costs relative to TELCO's costs (from the Actuarial Analysis)	28.3%
(B)	Proportion of increase in national average costs passed through to GNP-PI (from the Macroeconomic Analysis)	2.3%
(C)	Proportion of TELCO's SFAS 106 cost increase reflected in GNP-PI (item (A) x item (B))	0.7%
(D)	Proportion of TELCO's SFAS 106 cost increase offset by other macroeconomic adjustments, including the reduction of the wage rate (from the Macroeconomic Analysis)	14.5%
(E)	Proportion of TELCO's SFAS 106 cost increase unrecovered (100% - item (C) - item (D))	84.8%

Actuarial Analysis

Even if one were to take a conservative approach and assume that all SFAS 106 costs were passed through directly and completely to price increases and thus into the GNP-PI, 100% of each Price Cap LEC's SFAS 106 costs would be reflected in the GNP-PI, only if the following were true:

- The benefits provided by the Price Cap LEC to its employees were at the same level as those provided to all other employees in the economy.

- The benefits provided by the Price Cap LEC gave rise to the same relative increase in total costs as for other employers when SFAS 106 is applied.

Because neither of the above statements is true, the percentage of each Price Cap LEC's SFAS 106 costs that will be reflected in the GNP-PI is far less than 100%. Indeed, we have determined that ignoring macroeconomic effects, only 28.3% of the additional costs incurred by the average Price Cap LEC due to SFAS 106 would be reflected in the GNP-PI. This result was derived by the following steps:

- By utilizing demographic, economic, and benefit program data collected from each Price Cap LEC we constructed a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole.

- By utilizing a data base of plan provisions for retiree medical plans sponsored by 830 private sector employers (covering 19 million employees) and our Benefit Level Indicator ("BLI") methodology, we determined how TELCO's program compared to a "national average" benefit program.

- We adjusted this comparative benefit analysis to reflect specific factors that would cause similar benefit programs to generate different levels of SFAS 106 cost. In particular, we adjusted for:

  - differences in demography (average age, service, etc.)
  - differences in withdrawal and retirement patterns
  - differences in the number and impact of current retirees
  - differences in the extent of current pre-funding of benefits conducted by TELCO and that of others.

- We then took account of the very large group of workers in the national economy who are not covered by any post-retirement program or are covered by a program that is not affected by the FASB's rules. Their employers will, by definition, incur no SFAS 106 cost for them.

- We made two final adjustments to the comparative analysis due to economic factors. In particular, we:

  - made an adjustment for differences between per unit labor costs for TELCO and for other employers, and

  - made an adjustment for differences in the percentage of total output represented by labor costs for TELCO and for other employers.

Putting together all of these factors, we find that the impact of SFAS 106 on the costs of the average employer in the economy (including employers that do not offer post-retirement health benefits and/or are not affected by FASB's rules) is only 28.3% of the corresponding impact on TELCO. In addition, the Actuarial Analysis finds that SFAS 106 directly increases labor costs by 3% for the average employer offering post-retirement health benefits covered by SFAS 106. This 3% figure is an important input to the Macroeconomic Analysis.

Macroeconomic Analysis

The purpose of the Macroeconomic Analysis is to determine the extent to which the additional costs resulting from SFAS 106 would be passed through to an increase in GNP-PI. The Macroeconomic Analysis utilizes a macroeconomic model developed for Godwins by Professor Andrew Abel of the Wharton School of the University of Pennsylvania to address this question. The Macroeconomic Analysis finds that only 2.3% of direct SFAS 106 costs of the average employer in the economy are passed through to the GNP-PI. In addition, as a result of SFAS 106 the average wage rate in the economy would be 0.93% lower than it would have been in the absence of SFAS 106.

Effects of SFAS 106 on TELCO's Costs

As noted, the ultimate purpose of the study is to determine the extent to which GNP-PI reflects the additional costs incurred by the average Price Cap LEC (i.e. TELCO) as a result of SFAS 106. The table shown on page 2 summarizes our findings. Item (A) summarizes the Actuarial Analysis which finds that costs of

the average company in the economy increase by only 28.3% as much as TELCO's costs increase as a result of SFAS 106. Because only 2.3% of the average increase in costs is passed through to the GNP-PI (item (B)), only 0.7% (item (C), 2.3% x 28.3%) of TELCO's additional costs resulting from SFAS 106 are reflected in GNP-PI. Thus, it would appear that 99.3% of TELCO's additional costs are left unrecovered. However, the Macroeconomic Analysis finds that the national wage rate would eventually be 0.93% lower than it would have been in the absence of SFAS 106. If TELCO were able to benefit from a similar reduction in its wage rate, such a reduction would recover an additional 14.5% of TELCO's direct SFAS 106 costs (item (D)). Taking account of the 0.7% recovery due to GNP-PI and the eventual 14.5% recovery due to the adjustment of the wage rate leaves 84.8% of TELCO's direct SFAS 106 costs unrecovered (item (E)).

II. DEVELOPMENT AND SUMMARY OF RESULTS

We wish to establish what percentage of the average Price Cap LEC's SFAS 106 costs will be reflected in the GNP-PI and hence what percentage will not be so reflected.

We begin with an actuarial analysis which proceeds in two steps. The first step in the actuarial analysis is to construct a composite company which accurately reflects the characteristics and benefit plans of the average Price Cap LEC. The second step is to determine the impact of SFAS 106 on this composite company relative to the impact of SFAS 106 on other employers in the GNP on the assumption that all additional costs are passed on completely into the GNP-PI. Following the actuarial analysis is a macroeconomic analysis to determine the extent to which the additional costs will, in fact, translate into higher prices and, therefore, affect the GNP-PI.

Construction of Composite Company ("TELCO")

Actuarial, benefit, economic and demographic data were collected on eleven Price Cap LECs. Data included was for total Telephone Operations consistent with amounts included on the 1990 ARMIS 43-02 for each Company. These data were then combined, treating each Price Cap LEC as if it were a division of the larger combined company. The characteristics of this composite company ("TELCO") are as follows:

Number of Active employees	613,193
Number of Retired employees:	294,482
1990 Average compensation per employee:	$38,533
1990 Total Revenue (in millions):	$82,512.9
1990 Total Value Added (in millions):	$61,338.4
Average Per Capita Claims Cost:	$3,075
Average Age of Actives:	41.6
Average Service of Actives:	16.6

Impact of SFAS 106 on the Average Price Cap LEC Relative to its Impact on All Employers in the GNP

There are 95.8 million private sector employees and 18.6 million public sector employees in 'GNP', all of whom (and their dependents) may incur medical charges in retirement. Public sector employers, however, will not record SFAS 106 expense even where the entity sponsors a post-retirement medical plan (public sector employers are not subject to FASB rules).

Of the private sector employees, 30.7 million are eligible to have a proportion of their charges in retirement met by their employer's medical plan (and which plan is subject to SFAS 106), the actual proportion depending on the detailed provisions of their employer's plan(s). It is this anticipated employer cost for those employees that is reflected in SFAS 106 costs. The proportion of the charges met is an effective measure of the overall level of benefit provided by a given plan. We will refer to it as the Benefit Level Indicator ("BLI"). We must establish the average proportion of covered employees' charges that will be met collectively by their employers - the GNP BLI.

Separately we will calculate the average proportion of charges met by the average Price Cap LEC - the TELCO BLI.

All other factors being equal (which they are not), the percentage of TELCO's SFAS 106 costs that would be reflected in the GNP-PI would be represented by the following ratio:

$$\text{BLI Ratio} = \frac{\text{GNP BLI}}{\text{TELCO BLI}} = \frac{\text{Benefit Level Indicator for the average employer in the GNP}}{\text{Benefit Level Indicator for TELCO}}$$

However, this ratio requires a number of adjustments:

- Adjustment for differences in demography which will affect the SFAS 106 impact of a given program (Demographic Adjustment).

- Adjustment for the differing impact on SFAS 106 costs of current retirees at TELCO compared with other employers (Current Retiree Adjustment).

- Adjustment for any differences in the extent to which TELCO is pre-funding its post-retirement benefits compared to other employers (Pre-Funding Adjustment).

- Adjustment for employees not covered by post-retirement medical programs or covered by programs for which SFAS 106 will not apply (Non-Covered Employees Adjustment).

- Adjustment for differences between per unit labor costs for TELCO and for other employers (Per Unit Labor Cost Adjustment).

- Adjustment for differences in the percentage of total output represented by labor costs for TELCO and for other employers (Labor Cost Percentage Adjustment).

Utilizing the data, methods, and assumptions described in Section III, we have determined the following values:

(1) GNP BLI = .2568

(2) TELCO BLI = .4390

(3) BLI Ratio = .2568 ÷ .4390 = .5850

(4) Demographic Adjustment = .5438

(5) Current Retiree Adjustment = .9287

(6) Pre-Funding Adjustment = 1.313

(7) Non-Covered Employees Adjustment = .2684

(8) Per Unit Labor Cost Adjustment = 1.3062

(9) Labor Cost Percentage Adjustment = 2.0832

(10) SFAS 106 Cost Increase Ratio = BLI Ratio x (4) x (5) x (6) x (7) x (8) x (9) = .2833

The SFAS 106 Cost Increase Ratio can be interpreted as meaning that, at most, only 28.3% of the additional cost incurred by TELCO due to SFAS 106 will find its way into the GNP-PI because the average employer in the GNP will experience only 28.3% of the cost increase that will hit TELCO.

Extent to which Impact of SFAS 106 on All Employers in GNP Translates into an Increase in the GNP-PI

The effect of SFAS 106 on the GNP-PI is calculated using a macroeconomic model that has two sectors. In sector 1 employers do not offer post-retirement health benefits, and in sector 2 employers do offer post-retirement health benefits. The macroeconomic model treats the introduction of SFAS 106 as a direct increase in the cost of labor facing employers in sector 2. The baseline calculations using the model calculate the impact of SFAS 106 on the GNP-PI using the following information:

(1) sector 2 accounts for 32% of private sector employment;

(2) labor costs account for 64% of total costs in sector 1 and in sector 2; and

(3) SFAS 106 directly increases labor costs by 3% in sector 2.

Based on these inputs, numerical solution of the macroeconomic model indicates that SFAS 106 will increase the private sector price index by 0.0138%.

To put this result in perspective we calculate a back-of-the-envelope estimate of the effect of SFAS 106 on the private sector price index as follows: a 3% increase in labor costs raises total costs and prices in sector 2 by 1.92% (64%

share of labor costs in total costs x 3% increase in labor costs) and thus raises the private sector price index by 0.614% (1.92% increase in price in sector 2 x 0.32 share of sector 2 in private sector GNP). Thus, if all direct costs were completely passed through in prices, and if there were no change in the amount of labor employed and output produced by each employer, the private sector price index would increase by 0.614%. However, taking account of the impact of labor costs on the demand for labor, and the impact of price changes on the demand for goods, the macroeconomic model finds that the private sector price index increases by only 0.0138%. We define the "passthrough coefficient" as the increase in the price index according to the macroeconomic model divided by the back-of-the-envelope price increase. In the baseline calculation, the passthrough coefficient is 0.0225 (0.0138% ÷ 0.614%). The passthrough coefficient can be thought of as the percentage of national SFAS 106 costs that will actually be reflected in the private sector price index.

The GNP-PI covers prices of government sector production as well as prices of private sector production, with the government sector accounting for 10.6% of GNP and the private sector accounting for 89.4% of GNP. Because SFAS 106 does not apply to the government sector, the government component of the GNP-PI will not be affected by SFAS 106. Therefore the increase in the GNP-PI equals 89.4% of the increase in the private sector price index. This factor of 89.4% applies both to the back-of-the-envelope price increase and to the price increase calculated by the macroeconomic model. Thus, the back-of-the-envelope increase in the GNP-PI is 0.549% (0.894 x 0.614%) and the increase in the GNP-PI according to the macroeconomic model is 0.0124% (0.894 x 0.0138%). The passthrough coefficient is 0.0225 (0.0124% ÷ 0.549%) which is identical to the passthrough coefficient for the private sector price index.

Resulting Impact of SFAS 106 on TELCO Relative to its Overall Impact on the GNP-PI

As noted above, the average employer in the GNP will experience only 28.3% of the cost increase that TELCO will experience due to SFAS 106. Furthermore, we have seen that only 2.3% of the cost increase experienced by all employers in the GNP will be passed through to the GNP-PI. From the interaction of these factors we